looking forward

CPAC (Care) Holdings Ltd. 2003 Annual Report

looking forward

Implying assurance that expectations will be fulfilled

Mirriam Webster Dictionary

Contents

CPAC Care: Quality, Strength, Stability

Our Purpose
CPAC is in business to provide services that meet the changing needs of seniors and communities.

Our Company
An acknowledged leader in the industry, CPAC is one of the largest private sector developer/operators of integrated seniors housing and health care communities in Western Canada. Our Company goal is to become the leader that revolutionizes seniors communities by providing innovative choices.

Focusing on the development/acquisition, ownership and operation of innovative Retirement Communities, CPAC prides itself on an operational mandate of "Aging in Place," an approach to senior care which is designed to help residents maintain independence and dignity, blended with the security and sense of place offered through a vast range of comprehensive care choices and individualized levels of service.

From our current portfolio of six properties located in prime locations across British Columbia's Lower Mainland and Vancouver Island, our access to capital, a proven combination of management expertise in both Real Estate development and health care operations, a successful track record in marketing, and our established and growing relationships with Government agencies and other professionals within communities the Company serves, CPAC is well positioned to take fullest advantage of predicted dramatic growth of the seniors housing and care industry as our population ages.
Opportunities for Development:

CPAC's communities are dedicated to meeting the continuum-of-care (Aging in Place) needs and sensitivities of today's informed senior market. During this period of controlled expansion in the industry, there are a number of opportunities for CPAC to compete effectively, enhancing and strengthening our market position while eliminating any perceived barriers to our sustained growth and profitability,

1. Bringing state-of-the-art independent living with a continuum-of-care to geographic areas that are evolving to require need-driven living owing to the aging resident demographic, such as those seen to be retirement "destinations."

2. Building and taking advantage of evolving private-public partnerships and affinity groups, especially with respect to "Aging-in-Place" Communities.

3. Developing new built-to-purpose projects offering a full continuum of care in underserved markets.

4. Converting existing "functionally obsolete" properties in strong market areas to full-service retirement communities offering a continuum-of-care.

the standard of excellence

The time has come to reinvent the Seniors Housing and care environment for the 21st century. The growing numbers of elderly in British Columbia, in Canada and around the world demand and expect change. This past year has proven to be a benchmark not only for CPAC – but for the business of doing business as well.

CPAC's strategic plan has placed the company in a leading position within our industry, as well CPAC was rated as number 66 in Business in Vancouver's 2002 feature "B.C.'s 100 Biggest Companies."

Since CPAC's inception and the opening of our first "Aging-in-Place" facility, Crescent Gardens in 1997, it has been clear that we have been in the forefront of a movement to alter the way we think about, regulate and deliver services to our growing number of seniors, developing proven alternatives to the status quo both in theory and practice.

Our watchwords have always been Quality, Integrity, Responsibility and Accountability.

Our Company's product concepts, service capabilities, delivery packages, market planning and sales abilities are continuously being tested and refined and we have exhibited a core value structure and genuine belief in self-evaluation and self-improvement based on identifying our strengths and weaknesses, and better understanding the objectives and intricacies of our organization as a whole.

As part of that process this year we are very proud to have been granted the highest award of accreditation by the Canadian Council of Health Services Accreditation (CCHSA) program. CCHSA's program is based on national standards, and accreditation is widely regarded as a mark of quality, as an accredited organization must meet or exceed CCHSA's standards of excellence.

Accreditation is a rigorous voluntary process involving extensive self-evaluation by the organization's staff, residents, clients, and board of directors, and an on-site survey which includes interviews with client service, support and leadership teams as well as clients, informal caregivers and their support networks. Accreditation not only provides assurance of quality and integrity, but it offers the public a standard for comparison in evaluating retirement communities.

Further advances in the industry were made this year with the announcement of the development and launch of programs such the Government of British Columbia's "Independent Living BC." The launch of this program was welcomed by organizations such as the B.C. Care Providers Association – of which CPAC is a senior member – both as a result of the Government's stated intent to develop another 5,000 intermediate and long-term care units by 2006, and by providing a modern governance model to encourage the development of new facilities to meet seniors' needs.

Other proactive and positive features of this expanding program of seniors care include: All assisted living residences must be registered and a registrar's office will be created to work with operators in setting basic health and safety standards, and establish a process to monitor complaints, and to take action if standards are not being met.

CPAC is a founding member of the British Columbia Retirement Communities Association (BCRCA), the industry organization that is working very closely with the Government in the setting of standards and the formation of the office of the Registrar of Assisted Living.

According to recent research the seniors housing market is predicted to grow in a linear fashion through 2010, then grow exponentially from 2010 to 2030, and further suggests that the stability of future seniors housing demand, through aging of the population, should be independent of economic and business cycles and that for every three units in existence the market can support at least two more units.

We were pleased to celebrate the Grand Opening of our 6th operating facility "Village Square at Langley Gardens" on November 1st, 2002, coinciding with the first year anniversary of the opening of our "Langley Gardens" complex. At year-end occupancy for the Village Square Community stood at 85 percent.

Subsequent to year-end, on June 6th, which was declared "B.C. Seniors Day," we announced our plans for a third phase to the Community – "The Residences at Village Square." The Residences will follow CPAC's successful "Aging-in Place" model and add 110 suites to the Langley Gardens Retirement Community.

Again subsequent to year end, in conjunction with local focus groups and stakeholders, we began the project viability and market area definition process in preparation for the rezoning application for the development of an "Aging-in-Place" Community totalling approximately 200 suites in Qualicum Beach, B.C., on Vancouver Island. Dependent upon rezoning approval, the purchase of the 4.37 acre property is scheduled to take place in the fall of 2003.

We're proud of our results from fiscal 2002, both financial and organizationally, and are excited about our role in the growth of the industry in the coming year and the potential positive impact that will have on our stakeholders.

In tandem with developing new Communities and services for our residents, our focus continues to be cost containment and "value engineering," minimizing operating expenses and maximizing returns on capital expenditures, a focus based on our experience, track record, and management depth.

Through proven theory and hands-on-practice CPAC has become a leader in the concise definition of what quality, best practices and operational effectiveness in "Aging-in-Place" Communities and the delivery of senior services looks like for the 21st century.

It may be said that people really define excellence as the difference between what they expect and what they get.

What CPAC has done – and will continue to strive to do – is set the benchmark for what excellence is.

We thank everyone in the organization for the important role you play in carrying the Standard of Excellence forward, and we thank the continued support of our shareholders and partners.

Mr. Don Ho
President and Chief Executive Officer
CPAC (Care) Holdings Ltd.

Since CPAC's inception and the opening of our first "Aging-in-Place" facility, Crescent Gardens in 1997, it has been clear that we have been in the forefront of a movement to alter the way we think about, regulate and deliver services to our growing number of seniors, developing proven alternatives to the status quo both in theory and practice.

investing

Aging-in-Place helps residents to live the way they want to live, gives them control over their lives and the decision-making process, and it enables them to maintain normal day-to day activity.

The statistical picture of North America is a vivid portrait of an aging population. During the next 20 to 25 years, as many as 55 to 60 million seniors will be making lifestyle choices tailored to meet their individual needs.

Today people are living longer than ever before. In the past twenty years, according to Census figures, the segment of the population aged 65 and over grew twice as fast as the general population.

The need for personal care assistance for the elderly has been shown to increase with age. Results from seniors surveyed between the ages of 65 and 74 revealed that only 6.7 percent required assistance; however, between the ages of 75 to 84 the percentage increased to 15.7 percent, and for those over 85 it was nearly 40 percent.

The fastest-growing age group is made up of people 85 and older.

In the face of the expected vast increase in demand for housing and care options from a need-driven market, the seniors housing industry is taking the opportunity for self-examination and re-definition. Now more than ever before, businesses are seeking new and more efficient ways to operate.

Market awareness of the concept of assisted living or "Aging-in-Place" – as pioneered by CPAC – has increased, and been embraced by senior consumers and their families. Aging-in-Place helps residents to live the way they want to live, gives them control over their lives and the decision-making process, and it enables them to maintain normal day-to day activity.

The evolution of the industry may be seen in recent Public/Private partnerships between Federal and Provincial Governments and developer/operators such as CPAC, resulting in British Columbia's innovative "Independent Living BC" program.

As our industry continues to mature, strategic partnerships between government agencies and systems and Companies with CPAC's experience, track record, and management depth will play a critical role in fueling the continued expansion of Independent Living communities.

As CPAC's successes have shown, Aging-in-Place communities and Independent Living programs not only provide a synergistic and independent fit within existing neighbourhoods, but are an effective response to the swelling public demand for resources and facilities to maintain the integrity and independence of our senior population as a whole.

in people

the communities

An acknowledged leader in the industry, CPAC is one of the largest private sector developer/operators of integrated seniors housing and health care communities in Western Canada. Our Company goal is to become the leader that revolutionizes seniors communities by providing innovative choices.

Arranglen Gardens

2300 Fowler Road
Qualicum Beach
British Columbia
Canada V9K 2A5

Arranglen Gardens is the largest proprietary care facility in the Qualicum Beach area on the East Coast of Vancouver Island. Acquired in October, 1998, the facility combines five wings, a cozy, home-like environment, and country-style living, on 33-acres of well maintained property. Arranglen Gardens provides Intermediate Care, Levels II and III, Extended Care and Respite Care to 87 residents.

24-Hour Skilled Nursing Care

Carlton Gardens

4125 Canada Way
Burnaby
British Columbia
Canada V5G 1G9

Carlton Gardens is home to 153 seniors who live in two continuing care facilities in adjacent buildings, operated by a single "hands-on" management team. Carlton Gardens is licensed to provide intermediate and extended care for residents who are no longer able to live independently in the community.

24-Hour Skilled Nursing Care

Crescent Gardens

1222 King George Hwy
Surrey
British Columbia
Canada V4A 9W6

Our flagship community stands as model of the Company's vision for distinctive and elegant Retirement Living. Opened in October of 1997, designed, developed and operated by CPAC and situated on approximately five acres, Crescent Gardens contains 186 suites offering our exceptional range of lifestyle options.

24-Hour Skilled Nursing Care
In House Support Services
Independent Living
Supportive Living

Langley Gardens

8888 – 202 Street
Langley
British Columbia
Canada V1M 4A7

Opened October of 2000, Langley Gardens offers elegant strata-titled Independent Living condominiums, comfortable Supportive Living suites and Multi-Level Care suites – available on a temporary or long-term rental basis – adding a much needed 204 suites to the Lower Mainland marketplace.

24-Hour Residential Multi-level Care
Assisted Living
In-House Support
Independent Living
Supportive Living

Langley Gardens at Village Square

8948 – 202 Street
Langley
British Columbia
Canada V1M 4A7

Opened October of 2002, Langley Gardens at Village Square is our latest showcase for its philosophy of "Aging in Place." Village Square brings an additional 92 suites to the Langley Gardens community, as well as approximately 20,000 sq.ft. of onsite commercial and retail space.

Subsequent to year-end the Company announced the planned development of "The Residences at Village Square." In concert with the neighbouring communities of Langley Gardens and Village Square at Langley Gardens, the new community will provide 110 residences with the greatest range and choice of "retirement" lifestyle options available.

Assisted Living
In-House Support
Independent Living
Supportive Living

Malaspina Gardens

388 Machleary Street
Nanaimo
British Columbia
Canada V9R 2G9

The second of our Retirement Communities, Malaspina Gardens, was acquired in December of 1997. Malaspina Gardens offers Intermediate Care, Levels II and III, Extended Care, Respite Care and a self-contained 33-bed special care unit for sufferers of Alzheimer's, and other dementia.

24-Hour Skilled Nursing Care

Management's Discussion and Analysis

March 31, 2003

The following discussion and analysis must be read in conjunction with the Consolidated Financial Statements and the Notes thereto.

Overview

CPAC (Care) Holdings Ltd. is engaged in the business of developing, acquiring, owning and operating retirement communities and senior care facilities. In the past few years, the Company expanded its operations considerably through acquiring existing senior care facilities and developing new retirement communities. The Company currently owns and operates six retirement facilities located in the Province of British Columbia. These facilities are Crescent Gardens in South Surrey, Malaspina Gardens in Nanaimo, Arranglen Gardens in Qualicum Beach, Carlton Gardens in Burnaby, and a one-half interest in Langley Gardens and Village Square in Langley.

Following the successful completion of Langley Gardens project in the fall of 2000, increasing market demand for occupancy at the facility has necessitated the establishment of a substantial residency waiting list.

In response to this heightened call for residential units, the Company started the development of "Village Square" in July 2001 as an extension of the existing Langley Gardens Community. The new project includes 56 independent living rental residential units and 36 assisted living residential units with enhanced services. The new residences occupy three storeys of a built-to-purpose four storey concrete building, atop approximately 20,000 square feet of commercial retail and medical services storefronts on the ground floor and one level of underground parking. The development was completed in fall 2002, and officially opened for residency in October 2002.

The Company is strategically planning to strengthen its portfolio of properties through the acquisition of existing facilities and the development of new communities. The Company's ability to respond quickly to well-thought-out and practical changes in the industry, combined with its development, operational and marketing acumen has led the Company to a position of strength from which it may meet the demands of today's vibrant seniors and the continuing need for high-quality long-term care facilities.

The overall business strategy of the Company is to provide both a flexible and wide range of services to its elderly clients, including independent living, congregate living, assisted living, and multi-level care. At the flagship property, Crescent Gardens, the Company introduced the concept of combining the operation of retirement communities with strata-titled residential developments, whereby clients are given the opportunity to purchase condominium units and acquire a package of services offered by the facility. The Company has further implemented this "Aging in Place" concept at other long-term care facilities that it developed or acquired and may continue to follow this model of operation in the future. Langley Gardens and Village Square are typical examples of this trend.

Revenue

Gross revenue for the fiscal year was $30.6 million, an increase of $2.1 million over the preceding year of $28.5 million. This increase in revenue includes the six months' operating revenue from Village Square, since its commencement of operations in October 2002.

Most of the units are fully occupied in the existing facilities except the Company's newest built facility "Village Square." However, the new facility was in operation with occupancy of more than 50% during the first week of its opening in October 2002. Its occupancy is growing steadily and has been increased to more than 70% at the end of the fiscal year.

Subsequent to year end, Village Square was awarded 10 subsidized beds from the Provincial Government through the Independent Living BC Program.

Following are the average occupancy rate for the existing facilities during the fiscal year ended March 31, 2003.

	Average rate
Crescent Gardens	94%
Langley Gardens	98%
Village Square (for the 6-month period from Oct 02 to Mar 03)	60%
Carlton Gardens	99%
Malaspina Gardens	99%
Arranglen Gardens	99%

Some small vacancy factor is due to resident turnover. The government subsidy programs reimburse facilities at 100% capacity for average capacity levels in excess of 97%.

Operating Expenses

Operating expenses are the direct expenses related to the operation of the facilities including salaries and benefits, purchased services, supplies, administration, property taxes, strata fee, utilities, repair and maintenance, and marketing.

Management's Discussion and Analysis

March 31, 2003

The salaries and benefits, and purchased labour services together are approx. 85% of the total operating expenses. As at March 31, 2003, the Company has approx. 570 full time and part time employees attending to the management and daily operations of the Company's existing six facilities.

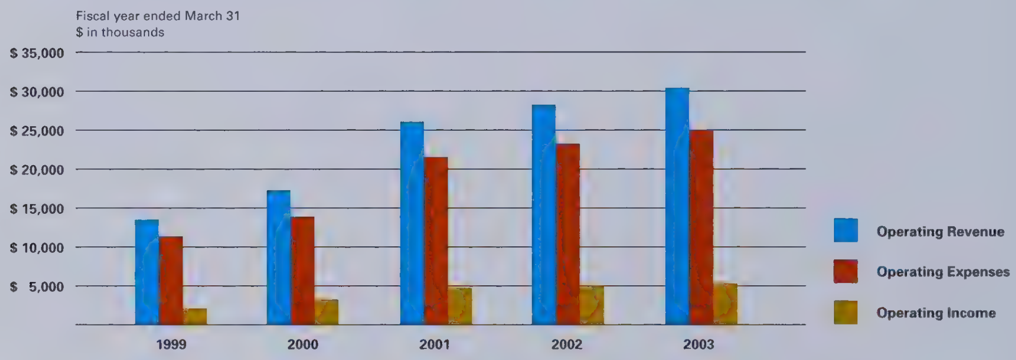
The Company is expecting a significant saving of labour costs in the next fiscal year through its contracting-out program to cover the increasing operating costs as well as to maintain the Company's high-quality services.

Operating Income

An operating income of $5.3 million (2002 – $5.0 million) before fixed charges, interest and general administrative expenses was achieved after deducting an operating expenses of $25.3 million from revenue of $30.6 million. This represents an increase of 6% in operating income over the preceding year.

Summary of Historic Operating Revenue, Operating Expenses, and Operating Income for the past five years.

As shown in the chart below the Company was anticipating a gradual increase in operating revenue resulting from its expansion program.



The significant increase of operating revenue in 2001 above includes the full year's operating revenue from Carlton Gardens (a facility acquired in February, 2000) and the six months' operating revenue from Langley Gardens, since its commencement of operation in October 2000.

The increase in operating revenue in 2003 above includes the revenue of $0.32 million (representing the Company's share – 50%) from Village Square, since its commencement of operation in October 2002. This new facility will generate full year operating income to the Limited Partnership from the beginning of next fiscal year.

The Company continues to review its existing operational and financial procedures and practices to ensure operating efficiencies and the best utilization of practice systems, which will lead to improvements of overall operating margins. Besides, the Company is anticipating additional capacity from its expansion program, in order to achieve greater fixed cost absorption as well as decrease in variable operating expenses on a per bed / suite basis.

General and Administrative Expenses

General and administrative expenses for the fiscal year are maintained at 4% of gross revenue (2002 – 3.9%). According to the Company's growth strategy, the Company expects that these expenses will be increased marginally as further properties are added to its portfolio, and that the percentage of expenses over gross revenue will be decreased as a result of the increase in gross revenue by adding new properties.

The ongoing administrative strategies applied at both head office and the facilities include the use of state-of-the-art technology and equipment, integrated management reporting, and management information system, which enable the Company to improve the effectiveness in the management of its operations.

Income Taxes

On April 1, 2000, the Company adopted the liability method of accounting for income taxes and applied the change on a retroactive basis without restatement of the prior year's financial statements. The effect of this change on the opening financial statements as at April 1, 2000 was increasing the opening deficit by $2.7 million, future income tax asset by $1.2 million, future income tax liability by $3.6 million, and decreasing the unamortized goodwill related to Malaspina Gardens by $0.25 million. The future income tax asset and future income tax liability at the end of the fiscal year are respectively $1.2 million and $2.3 million.

Financial Resources and Liquidity

During the year, the Company obtained a financing of $1.6 million through the issuance of unsecured convertible debentures at the interest rate of 8% per annum. The debentures are convertible at the holder's option into common shares of the Company at $2.15 per share.

The Company believes that its existing working capital together with its consistent cash in-flow from operations, proceeds from sale of property, and other available sources of financing, will be sufficient for the Company's ongoing capital expenditures and working capital requirements.

Sale of Property held for Future Development

The Company had entered into a contract with an arm's length purchaser to sell the property in Kelowna, B.C. for $3.5 million subject to financing, re-zoning, completion of Development Permit by the purchaser. As at March 31, 2001, the Company had reduced the carrying value of the property to $2.9 million, and the carrying costs subsequent to March 31, 2001 have been charged directly to deficits. The property is under a demand non-revolving loan of $1.5 million. Cash of $100,000 has been pledged as part of the security of the loan.

Future Developments

Qualicum Beach, BC

During the year, the Company made an offer to the School District of Qualicum to purchase in Qualicum Beach, B.C., the former Qualicum Beach Middle School site of approx. 4.37 acres for $1 million with a deposit of $50,000 subject to successful rezoning process.

The Company will submit the rezoning application to the Township of Qualicum Beach for the development of an Aging-in-Place Retirement Community containing independent living condominiums, rental suites, assisted living and licensed care totaling approx. 200 suites.

Upon the approval of the rezoning application, the completion of the purchase of the property is scheduled to take place in October, 2003. If the rezoning application is not approved, then the Company will not have to proceed with the purchase of the property and the $50,000 deposit, together with accrued interest, will be returned.

Walnut Grove, Langley, BC

Langley Gardens and Village Square provide seniors with the option of different retirement lifestyles following the Company's "Aging in Place" developmental and operational philosophy. They are the only multi-level housing of their kind in Walnut Grove, Langley.

There is a critical shortage of these types of facilities in the lower mainland of British Columbia, especially with the increasing number of seniors over the age of 75 seeking secure, comfortable true continuum of care accommodation. The Company is planning to develop the Phase III project in Walnut Grove during the next fiscal year as a further extension of the retirement community by the addition of 110 suites.

Environmental Policy

The Company has an environmental policy in place, which is applicable to any acquisitions, constructed properties, and day-to-day operations. This policy has been implemented out of regard for the safety and well being of the properties' residents, as well as concern about maintaining the on-going value of the properties themselves.

Business Risks

Interest

The Company has been able to acquire or refinance properties at favorable interest rates, and where possible, has insured mortgages with CMHC, which will allow the Company to renew mortgages at very favorable rates during the amortization period of the original debt. In the few select cases of debt with high interest rates, the terms have been kept as short as possible.

Business

Like any similar organization, the Company faces competition for residents. To diminish this competition, the Company exhaustively studies demographic reports in order to acquire or develop properties in what the research deems to be the best possible geographic location. In addition, financial pro-formas are prepared in such a manner as to ensure that rents and building costs are synchronized in order to produce an appropriate rate of return on investment for each property.

Auditors' Report

March 31, 2003

To the Shareholders of CPAC (Care) Holdings Ltd.

We have audited the consolidated balance sheet of CPAC (Care) Holdings Ltd. as at March 31, 2003 and the consolidated statements of operations, shareholders' equity and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at March 31, 2003 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles. As required by the British Columbia Company Act, we report that, in our opinion, these principles have been applied on a consistent basis, except for the change in accounting policy for goodwill as disclosed in Note 2 (i) and the change in accounting policy for stock-based compensation as disclosed in Note 2 (p).

Deloitte & Touche LLP

Chartered Accountants
Vancouver, British Columbia
May 15, 2003

Management's Responsibility for Financial Information

The information and representations in this annual report have been prepared by the management of the Company.

The consolidated financial statements have been prepared in conformity with Canadian generally accepted accounting principles and, where appropriate, reflect management's best estimates and judgements. A system of internal accounting controls is maintained to provide reasonable assurance that financial information is accurate and reliable.

The Company's independent auditors, who are appointed by the shareholders, conduct an audit in accordance with Canadian generally accepted auditing standards for the purpose of expressing their opinion on the consolidated financial statements. The Board of Directors' Audit Committee meets periodically with management to review accounting, internal accounting controls and financial reporting matters.

This annual report has been approved by the Board of Directors.

Patrick Shum
Chief Financial Officer
May 15, 2003

Consolidated Balance Sheet

March 31, 2003

	2003	2002
Assets		
Properties		
Revenue-producing Note 3	**$ 53,518,522**	$ 47,819,208
Under development Note 4	**–**	4,118,947
Held for future development Note 5	**5,382,992**	5,410,878
Held for sale	**–**	83,214
	58,901,514	57,432,247
Cash	**2,507,095**	2,330,286
Restricted cash	**419,870**	329,554
Deferred pre-operating costs, net of accumulated amortization of $732,160 (2002 – $568,712)	**105,562**	228,048
Deferred financing costs, net of accumulated amortization of $848,443 (2002 – $568,897)	**363,651**	557,871
Goodwill, net of accumulated amortization of $363,249	**342,095**	342,095
Future income taxes Note 13	**1,206,206**	1,206,206
Other Note 6	**952,073**	818,908
	$ 64,798,066	$ 63,245,215
Liabilities		
Debt on properties Note 7	**$ 52,388,482**	$ 49,150,786
Convertible debentures Note 8	**3,512,563**	2,056,706
Accounts payable and accrued liabilities	**2,835,857**	3,346,708
Capital lease obligations Note 9	**207,439**	631,783
Other accrued liabilities Note 10	**1,045,599**	1,161,987
Future income taxes Note 13	**2,323,018**	2,359,646
	62,312,958	58,707,616
Commitments Note 14		
Shareholders' Equity		
Share capital Note 11	**13,383,080**	13,383,080
Equity component of convertible debentures Note 8	**288,261**	133,846
Deficit	**(11,186,233)**	(8,979,327)
	2,485,108	4,537,599
	$ 64,798,066	$ 63,245,215

See accompanying Notes to the Consolidated Financial Statements

Approved by the Directors

Don Ho, *director*

Joanne Yan, *director*

Consolidated Statement of Operations

Year Ended March 31, 2003

	2003	2002
Operating Revenues	**$ 30,553,950**	$ 28,480,581
Operating Expenses		
Salaries and benefits Note 10	**20,324,480**	19,194,937
Supplies	**1,819,501**	1,911,109
Purchased services	**1,174,711**	597,791
Property taxes and strata fees	**663,074**	599,928
Administration	**515,126**	455,491
Utilities	**469,465**	456,862
Repairs and maintenance	**235,301**	179,063
Marketing	**54,594**	47,651
	25,256,252	23,442,832
Operating income before undernoted items	**5,297,698**	5,037,749
Amortization		
Revenue-producing properties	**(2,053,807)**	(2,043,409)
Deferred financing costs	**(289,820)**	(287,080)
Deferred pre-operating costs	**(163,447)**	(159,351)
Goodwill	**–**	(70,534)
	(2,507,074)	(2,560,374)
Interest on long-term obligations	**(3,801,147)**	(3,680,364)
General and administrative expenses	**(1,221,145)**	(1,122,399)
Project consulting fees	**76,500**	185,500
Income from properties held for sale	**64,556**	42,067
	(7,388,310)	(7,135,570)
Loss before income taxes	**(2,090,612)**	(2,097,821)
Recovery of (provision for) income taxes Note 13		
Current	**(152,925)**	(103,000)
Future	**36,631**	–
	(116,294)	(103,000)
Net Loss	**$ (2,206,906)**	$ (2,200,821)
Loss per common share – basic and diluted	**$ (0.09)**	$ (0.09)
Weighted average number of shares	**24,297,455**	24,314,641

See accompanying Notes to the Consolidated Financial Statements

Consolidated Statement of Shareholders' Equity

Year Ended March 31, 2003

	Number of Shares	Share Capital	Equity Component of Convertible Debentures	Deficit	Total
Balance at March 31, 2000	24,337,955	$ 13,405,388	$ 135,616	$ (5,325,384)	$ 8,215,620
Net loss for the year	–	–	–	(1,441,703)	(1,441,703)
Issuance of convertible debentures Note 8	–	–	34,062	–	34,062
Redemption of convertible debentures Note 8	–	–	(135,616)	–	(135,616)
Redemption of shares Note 9	(16,500)	(9,087)	–	(9,275)	(18,362)
Balance at March 31, 2001	24,321,455	13,396,301	34,062	(6,776,362)	6,654,001
Net loss for the year	–	–	–	(2,200,821)	(2,200,821)
Issuance of convertible debentures Note 8	–	–	99,784	–	99,784
Redemption of shares Note 9	(24,000)	(13,221)	–	(2,144)	(15,365)
Balance at March 31, 2002	24,297,455	13,383,080	133,846	(8,979,327)	4,537,599
Net loss for the year	–	–	–	(2,206,906)	(2,206,906)
Issuance of convertible debentures Note 8	–	–	154,415	–	154,415
Balance at March 31, 2003	24,297,455	$ 13,383,080	$ 288,261	$ (11,186,233)	$ 2,485,108

See accompanying Notes to the Consolidated Financial Statements

Consolidated Statement of Cash Flows

Year Ended March 31, 2003

	2003	2002
Operating Activities		
Net loss	$ (2,206,906)	$ (2,200,821)
Items not affecting cash		
Amortization	2,507,074	2,560,374
Future income taxes	(36,631)	–
	263,537	359,553
Changes in non-cash operating accounts		
Properties held for sale	83,214	–
Accounts receivable	(9,936)	(6,944)
Supplies inventory	13,535	16,232
Prepaid expenses and deposits	30,838	(51,582)
Accounts payable and accrued liabilities	(288,719)	689,332
Other accrued liabilities	(116,389)	(391,510)
	(23,920)	615,081
Investing Activities		
Properties under development	–	(3,715,968)
Revenue-producing properties	(3,856,304)	(432,236)
Properties held for future development	27,886	(36,738)
Prepaid project costs	(167,602)	45,710
Deferred pre-operating costs	(40,962)	–
	(4,036,982)	(4,139,232)
Financing Activities		
Net proceeds on convertible debentures	1,600,000	1,200,000
Mortgage proceeds	3,968,731	1,671,208
Mortgage repayments	(731,035)	(674,238)
Repayment of capital lease obligations	(424,344)	(270,556)
Restricted cash	(90,316)	(229,554)
Deferred financing costs	(85,325)	(67,938)
Redemption of common shares	–	(15,365)
	4,237,711	1,613,557
Increase (decrease) in cash	176,809	(1,910,594)
Cash, beginning of year	2,330,286	4,240,880
Cash, end of year	$ 2,507,095	$ 2,330,286
Supplemental Cash Flow Information		
Interest paid	$ 3,507,536	$ 3,399,372
Income taxes paid	$ 113,070	$ 198,247

See accompanying Notes to the Consolidated Financial Statements

Notes to the Consolidated Financial Statements

Year Ended March 31, 2003

1. Operations

CPAC (Care) Holdings Ltd. ("CPAC" or the "Company") was incorporated on May 24, 1995 under the Canada Business Corporation Act. Its current business is the development, operation, and sale of retirement care facilities which include Crescent Gardens, Malaspina Gardens, Arranglen Gardens, Carlton Gardens, Langley Gardens and Village Square.

2. Summary of Significant Accounting Policies

a) Principles of consolidation

These consolidated financial statements include:

(i) the accounts of the Company and its wholly-owned subsidiaries:

CPAC (Crescent Gardens) Inc. ("Crescent Gardens");
CPAC (Care) Management Inc. ("CPAC Management");
CPAC (Malaspina Gardens) Inc. ("Malaspina Gardens");
CPAC (Arranglen Gardens) Inc. ("Arranglen Gardens");
CPAC (Langley Gardens) Holdings Inc. ("Langley Holdings");
CPAC (Lakeview Gardens) Inc. ("Lakeview Gardens");
CPAC (Carlton Gardens) Inc. ("Carlton Gardens");
CPAC (Fairway Gardens) Inc. ("Fairway Gardens"); and
Senior Lifestyles Services Inc.

(ii) the Company's interest in joint ventures, which are accounted for on the proportionate consolidation basis:

CPAC (Langley Gardens) Inc. (50%); and
CPAC (Langley Gardens) Limited Partnership (50%).

All significant intercompany transactions have been eliminated.

b) Revenue-producing properties

Revenue-producing properties are stated at cost. Amortization of buildings is provided on a straight-line basis at an annual rate of 2% to 5%. Amortization of other assets is provided on a declining-balance basis at the following annual rates:

Furniture and fixtures	20%
Other	20% - 30%

c) Properties under development

Properties under development are carried at the lower of capitalized cost and net realizable value. Cost includes the cost of land, construction costs, interest and other carrying costs, and other direct costs associated with the development.

d) Properties held for future development

Properties held for future development are carried at the lower of capitalized cost and net realizable value. Cost includes the cost of land, interest and other carrying costs, and other direct costs associated with the development.

e) Properties held for sale

Strata units held for sale are valued at the proportional amount of land and development costs based on aggregate square footage of the premises. Properties held for sale are recorded at the lower of this cost and net realizable value.

f) Restricted cash

Restricted cash comprises cash pledged as security for two demand loans (see Note 7), and amounts supporting letters of credit.

Notes to the Consolidated Financial Statements

Year Ended March 31, 2003

g) Deferred pre-operating costs
Deferred pre-operating costs of a constructed facility represent costs incurred subsequent to completion of construction but prior to full operation of the facility, and are amortized over five years on a straight-line basis.

h) Deferred financing costs
Costs directly related to obtaining financing are deferred and amortized over the term of the related debt.

i) Goodwill
Goodwill represents the excess of the purchase price over the fair value of net identifiable assets. In prior years the Company calculated amortization on the straight-line method over 10 years. Effective April 1, 2002, the Company adopted, on a prospective basis, the new recommendations of the Canadian Institute of Chartered Accountants (the "CICA") with respect to valuation of goodwill. Under the new recommendations, goodwill will no longer be amortized, but will be tested for impairment at least on an annual basis. The application of these new recommendations had no impact on the net income or financial position of the Company in the current year.

j) Supplies inventory
Inventory consists of food supplies, which are recorded at the lower of cost and replacement cost.

k) Convertible debentures
Upon issuance, convertible debentures are classified into their financial liability and equity components. The financial liability component represents the present value of future principal and interest payments. The equity component represents the value ascribed to the holders' option to convert the principal balance into common shares. The financial liability is accreted to the amount due at maturity by way of a charge to operations.

l) Employee future benefits
The Company provides certain pension benefits to eligible participants upon retirement. These benefits are provided on a defined contribution basis. The pension benefits expense recognized for the year ended March 31, 2003 is $261,139 (2002 – $249,592).

Employees belonging to the Hospital Employee Union are entitled to severance pay and a payout of 40% of accumulated sick pay benefits after 10 years of service under certain conditions of employment termination or on retirement. The Company accrues its obligations for these post-employment benefits and the related costs. The cost of post-employment benefits is actuarially determined using the projected accrued benefit cost method using management's assumptions. Any resulting net actuarial gain (loss) is recognized in operations in the current period (see Note 10).

m) Revenue recognition
Revenue from strata unit sales is recognized when the purchaser is entitled to possession and closing funds have been received.

Operating revenues comprise rentals and care services, and are recognized on a monthly basis.

Operating revenue for a constructed facility is recognized when the facility is operational and a satisfactory level of occupancy has been attained.

n) Income taxes
The Company accounts for income taxes under the liability method. Under this method, temporary differences arising from the difference between the tax basis of an asset or a liability and its carrying amount on the balance sheet are used to calculate future income tax assets or liabilities. Future income tax assets or liabilities are calculated using tax rates anticipated to be in effect when the temporary differences are expected to be realized or settled. A valuation allowance is provided to the extent that it is more likely than not that future income tax assets will not be realized. The effect of a change in income tax rates on future income tax assets and liabilities is recognized in income in the period that the change occurs.

o) Loss per share
Basic loss per share is calculated by dividing the net loss by the weighted average number of common shares outstanding during the year. Diluted earnings per share is calculated to show the dilutive effect of an outstanding stock option and warrant being exercised.

Notes to the Consolidated Financial Statements

p) Stock-based compensation plans

Effective April 1, 2002, the Company adopted the new CICA Section 3870, Stock-Based Compensation and Other Stock-Based Payments. As permitted by the new standard, the Company has applied this change prospectively for new awards granted on or after April 1, 2002. The Company applies the intrinsic value based method of accounting for stock-based compensation awards granted to employees. Accordingly, no compensation cost has been recognized for its fixed stock option plans. However, direct awards of stock to employees and stock option awards granted to non-employees are accounted for in accordance with the fair value method of accounting for stock-based compensation. The fair value of direct awards of stock are determined by the quoted market price of the Company's stock and the fair value of stock options are determined using the Black-Scholes option pricing model. Pro forma information regarding net income is required as if the Company had accounted for its employee stock options granted after March 31, 2002 under the fair value method. The fair value for these options is estimated at the grant date using a Black-Scholes option pricing model with assumptions for: weighted-average risk free interest rates; dividend yields; weighted-average volatility factors of the expected market price of the Company's common shares; and a weighted-average expected life of the options. For purpose of pro forma disclosures, the estimated fair value of the options is amortized to expense over the options' vesting periods.

q) Use of estimates

The preparation of the consolidated financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingencies at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

3. Revenue-Producing Properties

			2003	2002
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	**$ 10,406,446**	**$ –**	**$ 10,406,446**	$ 9,332,114
Buildings	**47,482,500**	**6,260,662**	**41,221,838**	36,272,490
Furniture and fixtures	**1,951,267**	**1,143,256**	**808,011**	953,884
Other	**2,453,262**	**1,371,035**	**1,082,227**	1,260,720
	$ 62,293,475	**$ 8,774,953**	**$ 53,518,522**	$ 47,819,208

During the year, the Company acquired a total of $Nil (2002 – $81,387) capital leases.

Included in revenue-producing properties at March 31, 2003 are assets under capitalized leases with a net book value of $262,789 (2002 – $765,358).

4. Properties Under Development

	2003	2002
Land	**$ –**	$ 1,019,000
Construction and development costs	**–**	3,068,245
Interest	**–**	31,702
	$ –	$ 4,118,947

5. Properties Held for Future Development

	2003	2002
Land	**$ 4,992,586**	$ 4,992,586
Construction and development costs	**362,556**	393,504
Property taxes	**27,850**	24,788
	$ 5,382,992	$ 5,410,878

Notes to the Consolidated Financial Statements

Year Ended March 31, 2003

6. Other

	2003	2002
Accounts receivable	**$ 337,057**	$ 327,121
Supplies inventory	**36,844**	50,379
Prepaid project costs	**212,836**	45,234
Prepaid expenses and deposits	**365,336**	396,174
	$ 952,073	$ 818,908

7. Debt on Properties

	2003	2002
First Mortgages		
Mortgage bearing interest at 7.05%, repayable in monthly blended payments of $61,843, secured by a Canada Mortgage and Housing Corporation ("CMHC") insured first mortgage on assets of Malaspina Gardens, and due December 1, 2005.	$ 8,472,013	$8,619,823
Mortgage bearing interest at 6.13%, repayable in monthly blended payments of $63,352, secured by a CMHC insured first mortgage debenture over the assets of Crescent Gardens, a security agreement registered under the B.C. Personal Property Security Act, an assignment of rents, an assignment of insurance policies, a general assignment of any permits, licenses, and income due from the provincial government and personal covenants of certain shareholders who are also officers of the Company, and due April 1, 2003 (See Note 17 (i)).	10,517,203	10,636,725
Mortgage bearing interest at 6.875% on 46.2% of the principal and 6.76% on the balance, repayable in monthly blended payments of $46,460, secured by a CMHC insured first mortgage debenture over the assets of Langley Gardens, due May 1, 2011.	7,398,934	7,457,223
Mortgage bearing interest at 6.55%, repayable in monthly blended payments of $40,046, secured by a CMHC insured first mortgage on the assets of Arranglen Gardens, and due October 1, 2008.	5,462,833	5,586,008
Mortgage secured by a first mortgage against the four repurchased condominium units of Crescent Gardens.		
Bearing interest at 5.35%, repayable in monthly blended payments of $1,021, and due February 28, 2008.	169,360	–
Bearing interest at 4.5%, repayable in monthly blended payments of $620, and due February 28, 2005.	111,796	–
Mortgage secured by a collateral first mortgage against the assets of Carlton Gardens and two vacant lots held for future development, a general security agreement registered under the B.C. Personal Property Security Act and an assignment of insurance policies, and due December 3, 2003.		
Bearing interest at 5.89% and repayable in monthly blended payments of $49,784.	6,384,218	6,589,679
Bearing interest at 5.89% and repayable in monthly blended payments of $19,663.	2,521,570	2,597,872
Balance carried forward	41,037,927	41,487,330

Notes to the Consolidated Financial Statements

Year Ended March 31, 2003

	2003	2002
Balance brought forward	41,037,927	41,487,330
Second mortgages		
Mortgage bearing interest at 12.5%, calculated daily, compounded and payable monthly for interest only. One month prior to maturity date, the interest rate will increase to 18%. The loan is secured by a second fixed charge over the assets of Crescent Gardens, and due May 1, 2003 (See Note 17 (i)).	4,113,500	4,113,500
Mortgage bearing interest at 12.5%, calculated daily, compounded and payable monthly for interest only, secured by a second mortgage debenture over the assets of Arranglen Gardens, as well as any permits, licenses or goodwill associated with the ongoing operation of the property, and due December 1, 2003.	850,000	850,000
	4,963,500	4,963,500
Demand loans		
Non-revolving demand loan bearing interest at prime plus 1% secured by a $1,500,000 promissory note, a $20,000,000 demand mortgage on the property in Kelowna, B.C. and an assignment of rents on that property. Cash of $100,000 has been pledged as security for the loan.	1,500,000	1,500,000
Construction loan consisting of a $10,000,000 uncommitted demand non-revolving construction loan and a $118,000 uncommitted bank guarantee facility with HSBC at bank prime rate plus 1.25%. The construction loan is secured by promissory notes, a $11,000,000 demand mortgage, first ranking specific assignment of rents, first fixed security interest over all present and after acquired personal properties of Village Square and a floating charge over land, a $750,000 demand collateral mortgage, security over cash, credit balances and deposit instruments, and priority agreement from each of Canada Life Mortgage Services Ltd. and Peoples Trust Company (see Note 17 (ii)). The construction loan shall be paid in full by January 30, 2004. Cash of $303,344 has been pledged as security for the loan.	4,887,055	1,199,956
	6,387,055	2,699,956
	$ 52,388,482	$ 49,150,786

Minimum principal repayments for the next five years, assuming that the mortgages will be renewed under similar terms, are as follows:

2004	$ 835,150
2005	897,804
2006	957,787
2007	1,021,502
2008	1,090,610

Notes to the Consolidated Financial Statements

Year Ended March 31, 2003

8. Convertible Debentures

On November 15, 2000, the Company redeemed all of the outstanding convertible debentures of $5,985,000 for cash and wrote off related unamortized financing costs of $857,255. On this date, the Company also obtained financing of $1,027,368 through the issuance of unsecured convertible debentures which bear interest at 8.5%, calculated and paid quarterly. The debentures mature on November 15, 2005 but are convertible at the holder's option into common shares any time before maturity at a price of $2.15.

During the year ended March 31, 2002, the Company obtained financing of $1,200,000 through the issuance of unsecured convertible debentures which bear interest at 8.5%, calculated and paid quarterly. The debentures mature on October 3, 2006 but are convertible at the holder's option into common shares any time before maturity at a price of $2.15.

During the year ended March 31, 2003, the Company obtained financing of $1,600,000 through the issuance of unsecured convertible debentures which bear interest at 8%, calculated and paid quarterly. The debentures of $1,400,000 mature on November 30, 2010, and the balance $200,000 mature on January 31, 2011. The debentures are convertible at the holder's option into common shares any time before maturity at a price of $2.15.

	2003	2002
Face value	**$ 3,827,368**	$ 2,227,368
Unamortized discount	**(26,544)**	(36,816)
	3,800,824	2,190,552
Value of equity component	**(288,261)**	(133,846)
	$ 3,512,563	$ 2,056,706

9. Capital Lease Obligations

Minimum payments on the capital lease obligations are as follows:

2004	$ 118,147
2005	85,640
2006	20,129
	223,916
Imputed interest of approximately 8%	(16,477)
	$ 207,439

Interest in 2003 on the capital lease obligations amounted to $37,759 (2002 – $68,908)

10. Other Accrued Liabilities

As at March 31, 2003, other accrued liabilities include $1,016,771 (2002 – $1,117,800) of accrued benefits obligation related to employee future benefits.

The following employee future benefits information is related to sick leave and severance:

	2003	2002
Expense (recovery)		
Current service cost	**$ (174,229)**	$ 71,100
Interest cost	**73,200**	73,200
Net expense (recovery)	**$ (101,029)**	$ 144,300
Accrued benefit obligation, beginning of year	**$ 1,117,800**	$ 1,523,814
(Recovery) expense for the year	**(101,029)**	144,300
Actuarial gain	**–**	(550,314)
Accrued benefit obligation, end of year	**$ 1,016,771**	$ 1,117,800

Notes to the Consolidated Financial Statements

Year Ended March 31, 2003

Significant actuarial assumptions used in determining the Company's accrued benefit obligation are as follows:

Discount rate	7.0%
Rate of compensation increase	3.0%
Average remaining service life	8 years

For the year ended March 31, 2003, salaries and benefits include $Nil (2002 – $550,314) of actuarial gain related to these benefits.

11. Share Capital

The Company's authorized capital consists of an unlimited number of common shares and Class A preferred shares, both without par value.

a) Issued, outstanding and redemptions

On October 1, 1996, CPAC resolved to issue 2,000,000 common shares at $0.01 per share to four directors. On July 8, 1997, an escrow agreement was executed in respect of these shares. These shares will be released from escrow on the basis of one share for each $0.041334 of cumulative cash flow generated by the Company or cancelled if not released by June 15, 2008.

During the year ended March 31, 2001, the Company redeemed 16,500 common shares at a price ranging from $0.80 to $1.55 per share. The excess of the redemption price over the assigned value of the shares of $9,275 was charged directly to deficit.

During the year ended March 31, 2002, the Company redeemed 24,000 common shares at a price ranging from $0.60 to $0.80 per share. The excess of the redemption price over the assigned value of the shares of $2,144 was charged directly to deficit.

b) Stock options

The Company has three stock option plans for employees and directors, the details of which are as follows:

	2003		2002	
	Options	Weighted-Average Exercise Price	Options	Weighted-Average Exercise Price
Outstanding, beginning of year	**1,425,000**	**$ 1.26**	1,045,000	$ 1.50
Issued	**750,000**	**0.50**	385,000	0.60
Cancelled	**(835,000)**	**1.47**	(5,000)	1.50
Outstanding and exercisable at end of year	**1,340,000**	**$ 0.70**	1,425,000	$ 1.26

On March 31, 2003, the Company granted a total of 750,000 director stock options at an exercise price of $0.50 per share expiring March 31, 2008.

The following table summarizes information about the stock options outstanding at March 31, 2003:

	Options outstanding and exercisable		
Exercise Prices	Number Outstanding and Exercisable	Weighted-Average Remaining Contractual Life (In Years)	Weighted-Average Exercise Price
$ 0.50	750,000	5.00	$ 0.50
0.60	360,000	4.00	0.60
1.50	230,000	1.20	1.50
$ 0.50 - $1.50	1,340,000	4.06	$ 0.70

Notes to the Consolidated Financial Statements

The Company accounts for its stock-based compensation plans using the intrinsic value method whereby no compensation costs have been recognized in the financial statements for stock options granted to employees and directors. If the fair value method had been used for options granted subsequent to April 1, 2002, a fair value of $48,670 would be recorded. The Company's net loss and net loss per share would approximate the following pro forma amounts:

	March 31, 2003
Net loss as reported	$ (2,243,538)
Net loss pro forma	$ (2,292,208)
Net loss per common share basic and diluted	
Loss per share pro forma	$ (0.09)

The fair value of each option granted is estimated on the date of grant using the Black-Scholes option pricing model with weighted average assumptions for grants as follows:

Risk free interest rate	4.4%
Expected life of options in years	5 years
Expected volatility	98%
Dividend per share	$ 0.00

12. Joint Venture

The Company and Rieding Projects Ltd. ("Rieding") formed a limited partnership, CPAC (Langley Gardens) Limited Partnership (the "Joint Venture") for the development and operation of Langley Gardens in which each has a 50% interest. Each party also has a 50% interest in CPAC (Langley Gardens) Inc., the General Partner. The following amounts represent the Company's proportionate interest in the Joint Venture:

	2003	2002
Balance sheets		
Assets	$ 15,665,170	$ 12,602,408
Liabilities	12,834,074	9,755,242
Company's share of net assets	$ 2,831,096	$ 2,847,166
Statements of operations		
Operating revenue and income from property sales	$ 4,008,054	$ 3,500,156
Expenses	3,942,128	3,639,476
Company's share of profit (loss)	$ 65,926	$ (139,320)
Statements of Cash Flows		
Operating activities	$ 524,306	$ 952,714
Investing activities	(3,681,686)	(3,164,300)
Financing activities	3,363,532	1,014,232
Increase (decrease) in cash	206,152	(1,197,354)
Cash, beginning of year	147,491	1,344,845
Cash, end of year	$ 353,643	$ 147,491

The Company, along with Rieding, is jointly liable for all debts of the Joint Venture.

Notes to the Consolidated Financial Statements

13. Income Taxes

The components of the future income tax asset and liability are as follows:

	2003	2002
Future tax asset		
Non-capital losses (net of valuation allowance of $862,000; 2002 – $700,000)	**$ 1,206,206**	$ 1,206,206
Future tax liability		
Properties	**2,323,018**	2,359,646

Income tax expense for the years represents income taxes at an effective rate which differs from combined statutory rates of tax as follows:

	2003	2002
Recovery of income taxes at statutory rates	**(45.0%)**	(45.0%)
Large corporation tax	**3.8%**	4.1%
Losses of subsidiaries not recognized	**45.9%**	45.9%
Other	**0.9%**	–
	5.6%	5.0%

14. Commitments

a) Business venture

In 2001, a letter of intent to form a limited partnership (the "Partnership") was signed by the Company (50% interest), Rieding (25% interest), the Benchmark Group of Companies (25% interest) (together constituting the general partner ("Developer")) and the Langley Memorial Hospital Foundation (constituting the limited partner ("LMHF")), to construct a multi-level care facility on lands currently held by LMHF in the Township of Langley.

Upon signing this letter of intent, the Developer paid a non-refundable deposit of $75,000 (the Rezoning Fund) into the trust account of LMHF's lawyer to fund costs as they are incurred.

Upon completion of subdivision and rezoning process, the project will comprise 150 licensed care beds, 175 congregate care suites and 94 independent living condominiums.

As its contribution to the Partnership, LMHF intends to transfer approximately eight acres of land to the Partnership at $425,000 per acre, on a phased basis, in return for a 50% interest in the Partnership and 50% of the income from the proposed development.

In turn, the Developer will make a cash equity payment contribution equivalent to the value of the land vended into the Partnership by LMHF subject to the granting of funding by the Health Region for 150 multi-level care beds.

b) Purchase of property

On February 18, 2003, the Company made an offer to the School District No. 69 (Qualicum) to purchase a property in Qualicum Beach, British Columbia for $1,000,000.

c) Leases

The Company has a five-year lease agreement for office premises at a base rent of $43,200 per annum on a triple net basis, with City Group Holdings Ltd., a company controlled by the president and chief executive officer. The lease expires on December 31, 2007.

d) Service contracts

The Company is committed to management services agreements totaling approximately $320,400 per annum for an indefinite period with certain directors and/or officers.

Notes to the Consolidated Financial Statements

15. Related Party Transactions

During the year, related party transactions with companies controlled by shareholders, some of whom are also officers and/or directors of the Company, were as follows:

	2003	2002
Capitalized to property		
Consulting fees	**$ 30,000**	$ 70,000
Expensed		
Management services agreements	**159,600**	156,000
Rent	**43,200**	40,800

During the year, the Company incurred legal fees approximating $53,000 (2002 – $58,000) with a legal firm in which a director is a partner.

These transactions were in the normal course of operations and under normal trade terms, and are recorded at amounts as agreed by the related parties.

16. Financial Instruments

a) Credit risk and concentration of revenue

The Company's exposure to credit risks is indicated by the carrying amounts of its accounts receivable.

During year ended March 31, 2003, the Company received approximately 72% (2002 – 85%) of its operating revenues for the five facilities from grants provided by the Provincial Ministry of Health. The remainder is derived from private pay residents.

The Company must meet building guidelines and standards of service which comply with the licensing requirements under the Community Care Act to qualify for provincial government funding. The operating revenues which are funded by the Ministry of Health are based on care requirements and financial means assessment for each resident. Licensing and grants are subject to review annually.

b) Interest rate risk

All of the Company's financial assets and liabilities are non-interest bearing except cash which earns a floating interest rate; and mortgages payable, capital lease obligations and convertible debentures which bear interest as described in Notes 7, 8, and 9, respectively.

c) Fair values of financial assets and liabilities

The carrying values of cash, accounts receivable, and accounts payable and accrued liabilities approximate their fair values, given the short term to maturity of these instruments.

Management has determined that the carrying values of the debt on properties, convertible debentures and capital lease obligations approximate their fair value, based on comparison with similar instruments in the marketplace.

17. Subsequent Events

(i) Subsequent to year end, the Company renewed the mortgage financing for Crescent Gardens. The renewed financing will be secured by a blanket CMHC insured first mortgage and a blanket second mortgage over the lands and improvements of Crescent Gardens, first general assignment of book debts, and a general security agreement as collateral security registered as a first financial charge on the equipment of Crescent Gardens. The mortgages is due on June 1, 2008.

(ii) Subsequent to year end, the Company committed to a CMHC insured take-out first mortgage of $4,595,325 representing the Company's proportionate share, by way of a fixed and floating charge debenture and mortgage over the assets of Village Square, and a cross collateral/cross default on the property of Langley Gardens.

The mortgage will be amortized over 25 years and repayable in monthly blended payments calculated at the interest rate of 5.62% on a semi-annual basis, not in advance. The loan is due on June 6, 2013.

Corporate Information

Corporate Offices
1147 Homer Street
Vancouver, British Columbia
Canada V6B 5T5
Telephone 604 688 2220
Facsimile 604 681 4056
Email info@cpac-care.com
www.cpac-care.com

Board of Directors and Officers

Don Ho
President, Chief Executive Officer and Director

Mao Jung Hong
Chairman of the Board and Director

Isabella Ho
Executive Vice President Administration and Director

Joanne Yan
Executive Vice President Corporate Affairs, Secretary and Director

Martin Douglas Howard
Director

Patrick Shum
Chief Financial Officer

CPAC (Care) Management Inc.

Don Ho
President and Chief Executive Officer

Patrick Shum
Vice President Finance and Chief Financial Officer

Amanda List
Vice President Leadership and Organization Development

Leon Joyal
Vice President Operations

Linda Prout
Vice President Marketing

Solicitors
Clark, Wilson
Suite 800, 885 West Georgia Street
Vancouver, British Columbia

Banks
HSBC Bank Canada & TD Bank

Register and Transfer Agent
Pacific Corporate Trust Company
10th Floor, 625 Howe Street
Vancouver, British Columbia

Stock Exchange
CPK.V – TSXV

Auditor
Deloitte & Touche LLP
Suite 2800, 1055 Dunsmuir Street
Vancouver, British Columbia

Notice of Annual Meeting
The annual meeting of shareholders will be held at:
Suite 800, 885 West Georgia Street
Vancouver, British Columbia
Thursday, August 28, 2003 at 2:00pm

CPAC (Care) Holdings Ltd.
1147 Homer Street
Vancouver, British Columbia
Canada V6B 5T5

Telephone 604 688 2220
Facsimile 604 681 4056
Email info@cpac-care.com
www.cpac-care.com